

*Fourth Quarter*

# FARMER MAC

*Debt Investor Presentation -  
2017 CMTA Annual Conference*

*2016*

# Forward-Looking Statements

*In addition to historical information, this presentation includes forward-looking statements that reflect management's current expectations for Farmer Mac's future financial results, business prospects, and business developments. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events, both known and unknown, could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements. Some of these factors are identified and discussed in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission ("SEC") on March 9, 2017, which is also available on Farmer Mac's website ([www.farmermac.com](http://www.farmermac.com)). In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this presentation. Any forward-looking statements made in this presentation are current only as of December 31, 2016, except as otherwise indicated. Farmer Mac undertakes no obligation to release publicly the results of revisions to any such forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC. The information contained in this presentation is not necessarily indicative of future results.*

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# Use of Non-GAAP Financial Measures

*This presentation is for general informational purposes only, is current only as of December 31, 2016, and should be read in conjunction with Farmer Mac's Annual Report on Form 10-K filed with the SEC on March 9, 2017. In the accompanying analysis of its financial information, Farmer Mac uses the following non-GAAP financial measures: core earnings, core earnings per share, and net effective spread. Farmer Mac uses these non-GAAP measures to measure corporate economic performance and develop financial plans because, in management's view, they are useful alternative measures in understanding Farmer Mac's economic performance, transaction economics, and business trends. These non-GAAP financial measures that Farmer Mac uses may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies. Farmer Mac's disclosure of these non-GAAP financial measures is intended to be supplemental in nature, and is not meant to be considered in isolation from, as a substitute for, or as more important than, the related financial information prepared in accordance with GAAP.*

*Core earnings and core earnings per share principally differ from net income attributable to common stockholders and earnings per common share, respectively, by excluding the effects of fair value fluctuations. These fluctuations are not expected to have a cumulative net impact on Farmer Mac's financial condition or results of operations reported in accordance with GAAP if the related financial instruments are held to maturity, as is expected.*

*Core earnings and core earnings per share also differ from net income attributable to common stockholders and earnings per common share, respectively, by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of Farmer Mac's core business.*

*Farmer Mac uses net effective spread to measure the net spread Farmer Mac earns between its interest-earning assets and the related net funding costs of these assets. Net effective spread differs from net interest income and net interest yield because it excludes: (1) the amortization of premiums and discounts on assets consolidated at fair value that are amortized as adjustments to yield in interest income over the contractual or estimated remaining lives of the underlying assets; and (2) interest income and interest expense related to consolidated trusts with beneficial interests owned by third parties, which are presented on Farmer Mac's consolidated balance sheets as "Loans held for investment in consolidated trusts, at amortized cost."*



# Farmer Mac Overview

## Created in the 1980s to help provide a deeper credit market for rural America

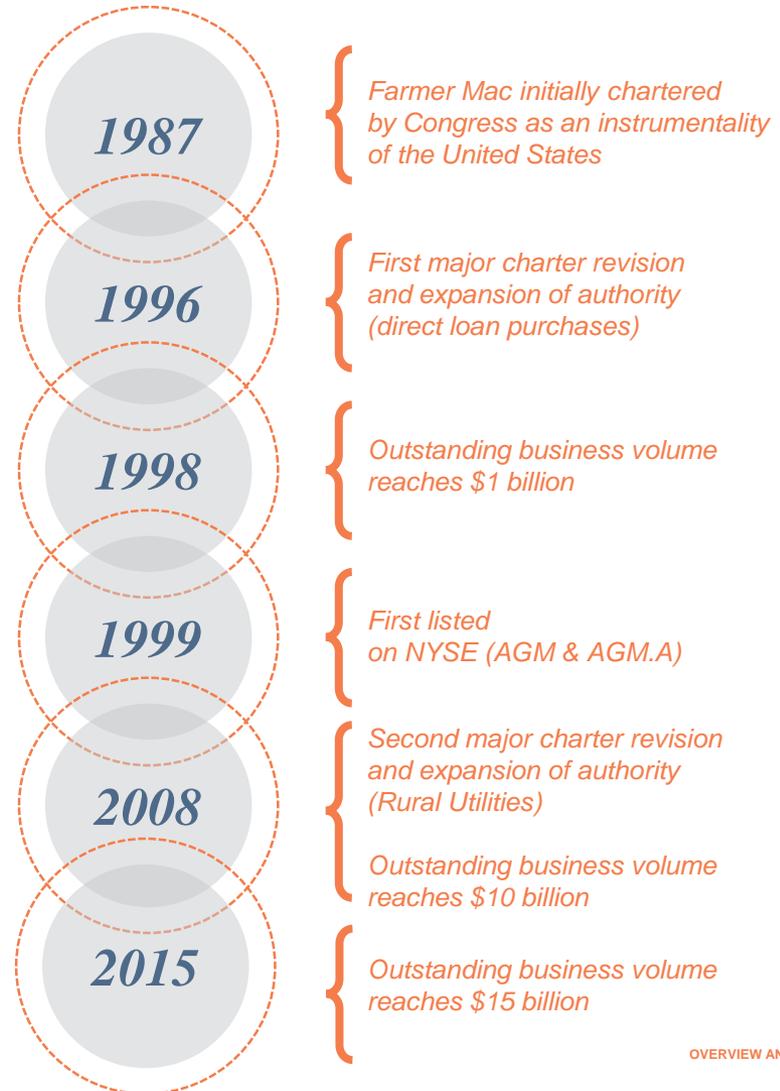
- Provide wholesale financing, secondary market and credit enhancements for agricultural and rural utilities lenders
- Increase access to credit and drive more efficient credit pricing for rural America
- Reduce rural credit market volatility by increasing liquidity and lending capacity for rural lenders

## Lines of business – focused on customers

- Farm & Ranch
- USDA Guarantees
- Rural Utilities
- Institutional Credit

## Diverse product suite provided to customers

- Loan purchases
- Wholesale financing
- Credit protection



# Farmer Mac Compared to Farm Credit Banks

	<i>Farmer Mac</i>	<i>Farm Credit Banks</i>
<b><i>Mission:</i></b>	Provides secondary market for agricultural, rural housing, and rural utilities loans	Provides primary market for primarily agricultural and rural housing loans
<b><i>Funding:</i></b>	Raises funds through dealers in the capital markets	Farm Credit Funding Corp. raises funds for Farm Credit Banks through dealers in the capital markets
<b><i>Board:</i></b>	Five of fifteen board members elected annually by Farm Credit Banks	All Farm Credit Banks have differently constituted Boards
<b><i>Charter:</i></b>	Congress established under the Agricultural Credit Act of 1987	Congress established authority for predecessor entities in 1916
<b><i>Regulator:</i></b>	Farm Credit Administration (FCA) through the Office of Secondary Market Oversight (OSMO)	Farm Credit Administration (FCA)
<b><i>Ownership Structure:</i></b>	Public shareholders	Networks of cooperatives



# Farmer Mac's Financial Strengths

## Quality Assets

- Rigorous underwriting standards
- Low delinquencies
- Low cumulative historical credit losses

## Capital Surplus

- Core capital \$143 million, or 31%, above statutory minimum capital level
- Tier 1 Capital Ratio<sup>(2)</sup> of 12.7%

## Liquidity

- \$2.8 billion liquidity portfolio at December 31, 2016
- Highly-rated assets provided 165 days of liquidity as of December 31, 2016
- \$1.5 billion line of credit with U.S. Treasury

## Match Funded

- Match funding of assets effectively locks in net spreads
- Effective interest rate and pre-payment risk management
- Extensive stress testing to ensure ongoing effective match

## Consistent Returns

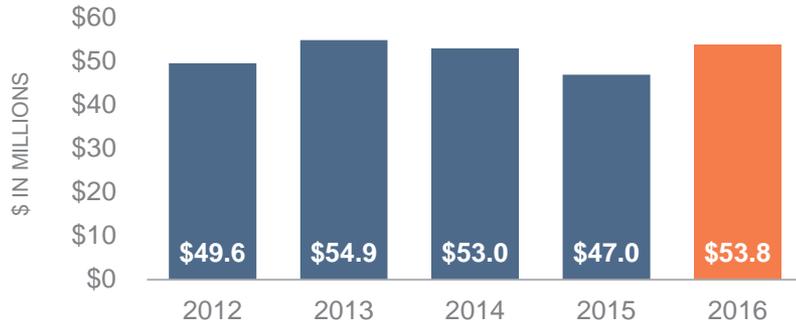
- Core earnings growth<sup>(1)</sup>

<sup>(1)</sup> Core earnings is a non-GAAP measure. For a reconciliation of GAAP net income attributable to common stockholders to core earnings, please refer to page 20.

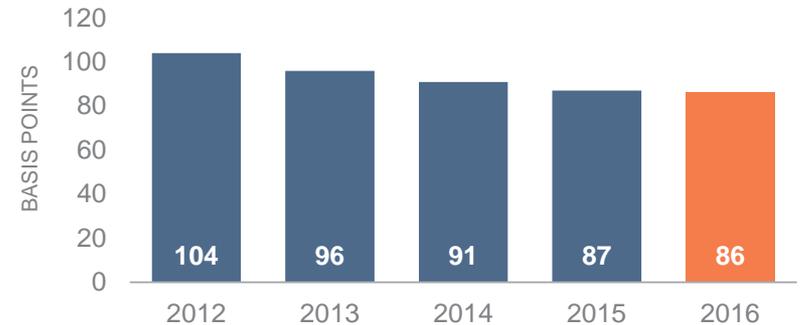
<sup>(2)</sup> Tier 1 capital consists of retained earnings, paid-in capital, common stock, qualifying preferred stock, and accumulated other comprehensive income allocable to investments not included in one of the four operating business lines.

# Farmer Mac Dashboard

## Core Earnings<sup>(1)</sup>



## Net Effective Spread<sup>(1)</sup>

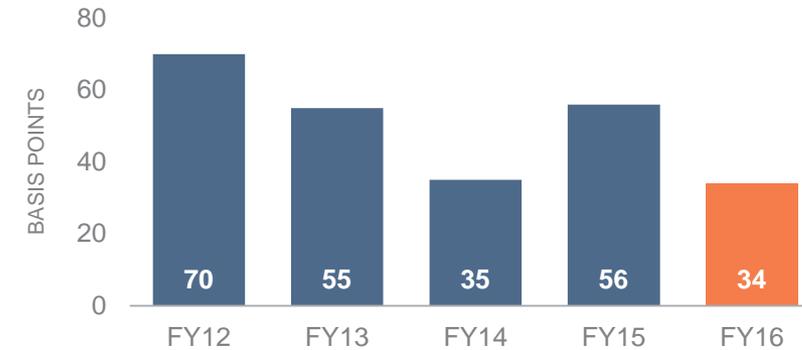


## Outstanding Business Volume



## 90-Day Delinquencies<sup>(2)</sup>

(Farm & Ranch Line of Business Only)



<sup>(1)</sup> Core earnings and net effective spread are non-GAAP measures. For a reconciliation of GAAP net income attributable to common stockholders to core earnings and a reconciliation of GAAP net interest income to net effective spread, please refer to pages 14 and 15 in the Appendix.

<sup>(2)</sup> Delinquencies include loans held and loans underlying off-balance sheet Farm & Ranch Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, or in bankruptcy with at least one missed payment, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.



# Farmer Mac Debt Program Overview

## **Finance asset purchases with proceeds of debt issuances**

- 31 approved dealers
- Match-funding effectively locks in net spread
- Discount notes issued daily
  - » Regular rollover maturities include overnight, 30, 90, and 365 days
  - » Reverse inquiry for special maturities
- Medium-term notes issued periodically
  - » Fixed rate and callable maturities up to 20 years
  - » Floating rate notes based on a variety of indices
  - » Reverse inquiry for special structures and maturities
- Retail notes (Farmer Mac Notes program)
  - » Bullet and callable structures
  - » Bullets have survivor's option

## **Farmer Mac's debt securities may carry privileges for certain holders**

- Federal Regulated Entities: 20% capital risk weighting
- Federal Reserve Banks and Federal Home Loan Banks: Collateral for advances and discounts
- SEC: Exempt from registration requirements under the 1933 Act
- National Association of Insurance Commissioners: # 1 Designation
- National Credit Union Administration: Investment for federal credit unions
- Investment Company Act of 1940: Classified as a "Government Security"





# *Case Study*

# The Borrower - J&P Organics

## Founder, Juan Pablo “JP” Perez

- Son of a farm worker
- Encouraged to pursue farm ownership by father
- Worked long hours farming at a young age
- After college, approached father about starting a family farm
- Toughest challenge was to get credit
  - Due to being a young farmer with little collateral and credit history

## Business Model

- Twist on Community-Supported Agriculture (CSA) model
- Requires no membership fees
- Allows customers to pay-as-they-go for fresh, organic, local fruits and vegetables
- Delivers directly to customers’ homes

## ABOUT J&P ORGANICS

OPERATION:

**ORGANIC FRUIT, VEGETABLE AND FLOWER FARM / DELIVERY SERVICE**

LOCATION:

**SALINAS, CA**

ESTABLISHED:

**2006**



## WHAT J&P ORGANICS WAS AFTER

- A lender willing to provide the financing they needed to fulfill their dream of becoming a farm owner
- An ag lender dedicated to finding the right finance solutions to help them grow and prosper
- Favorable loan terms for a first time farm owner

# The Lender - Cal Coastal

## Nonprofit Institution

- Serves needs of small or beginning businesses and farmers
- Has access to Farmer Mac's lender solutions
- Utilized Farmer Mac's solutions to increase California lending
- Farmer Mac allows them to :
  - Offer borrowers competitive rates and terms
  - Make more loans by freeing up capital and liquidity

## ABOUT CAL COASTAL

ASSET SIZE  
**\$14 MILLION**

FARMER MAC CUSTOMER SINCE:  
**1993**

HEADQUARTERS:  
**SALINAS, CA**

## WHAT CAL COASTAL WAS AFTER

- Additional liquidity so that they can continue to provide financing to small and beginner farmers
- Lending solutions to compete with other institutions
- Better loan terms, including long-term fixed rates to offer their ag customers

# *Farmer Mac Solution*

## ***Two Loan Purchase Programs***

- USDA Guaranteed
- Farm and Ranch

## ***Farmer Mac's Stewardship***

- Focused on being good stewards of our:
  - Congressional charter
  - Reputation
  - Corporate responsibilities





# *Appendix*

# Reconciliation of Net Income to Core Earnings

<i>(in thousands)</i>	Core Earnings by Period Ended				
	2016	2015	2014	2013	2012
Net income attributable to common stockholders	\$ 64,152	\$ 47,371	\$ 38,251	\$ 71,833	\$ 43,894
Less reconciling items:					
Unrealized gains/(losses) on financial derivatives and hedging activities	13,628	10,924	(9,968)	45,181	6,654
Unrealized gains/(losses) on trading assets	1,460	1,220	1,596	(820)	308
Amortization of premiums/discounts and deferred gains on assets consolidated at fair value	(849)	(1,319)	(14,549)	(19,180)	(11,178)
Net effects of settlements on agency forward contracts	1,699	(607)	159	882	1,317
Lower of cost or fair value adjustments on loans held for sale	-	-	-	-	(5,943)
Loss on retirement of Farmer Mac II LLC Preferred Stock <sup>(1)</sup>	-	(8,147)	-	-	-
Income tax effect related to reconciling items	(5,577)	(1,675)	7,966	(9,122)	3,094
Core earnings	\$ 53,791	\$ 46,975	\$ 53,047	\$ 54,892	\$ 49,642



<sup>(1)</sup> The loss from retirement of the Farmer Mac II LLC Preferred Stock in first quarter 2015 has been excluded from core earnings because it is not a frequently occurring transaction and not indicative of future operating results. This is also consistent with Farmer Mac's previous treatment of these types of origination costs associated with securities underwriting that are capitalized and deferred during the life of the security.

# Reconciliation of Net Interest Income to Net Effective Spread

<i>(in thousands)</i>	Net Effective Spread by Period Ended										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net interest yield	<b>0.90%</b>	0.88%	0.51%	0.89%	1.14%	1.30%	1.30%	1.68%	1.62%	0.85%	0.85%
Net effect of consolidated trusts	<b>0.03%</b>	0.01%	0.00%	0.00%	0.02%	0.06%	0.15%	0.00%	0.00%	0.00%	0.00%
Net effect of securities purchased under agreement to resell and securities sold, not yet purchased	<b>0.00%</b>	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expense related to undesignated financial derivatives	<b>-0.08%</b>	-0.04%	-0.07%	-0.10%	-0.23%	-0.41%	-0.54%	-0.70%	-0.49%	0.00%	-0.07%
Amortization of premiums/discounts on assets consolidated at fair value	<b>0.01%</b>	0.02%	0.12%	0.17%	0.12%	0.12%	0.19%	0.00%	0.00%	0.00%	0.00%
Yield maintenance payments <sup>(1)</sup>	<b>0.00%</b>	0.00%	0.00%	0.00%	-0.01%	-0.01%	-0.04%	-0.01%	-0.07%	-0.07%	-0.09%
Net Effective Spread	<b>0.86%</b>	0.87%	0.91%	0.96%	1.04%	1.06%	1.06%	0.97%	1.06%	0.78%	0.69%

<sup>(1)</sup> Beginning in 2013, Farmer Mac no longer excluded yield maintenance payments.



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